County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://cao.co.la.ca.us

DAVID E. JANSSEN
Chief Administrative Officer

August 5, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

REQUEST FOR AUTHORITY TO NEGOTIATE A 30-YEAR DESIGN-BUILD LEASE AGREEMENT FOR A FAMILY SERVICE CENTER FOR THE DEPARTMENTS OF CHILDREN AND FAMILY SERVICES, HEALTH SERVICES, MENTAL HEALTH, PROBATION, AND PUBLIC SOCIAL SERVICES AT 8500 VAN NUYS BOULEVARD IN SERVICE PLANNING AREA 2
(THIRD) (3-VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

Authorize the Chief Administrative Officer (CAO) to enter into negotiations with Arden Municipal Ventures, Inc. (AMV), or any other viable proposer should negotiations fail with AMV, for a 30-year lease agreement to provide approximately 135,000 rentable square feet of office space and appurtenant parking for a design-build lease with option to buy within Service Planning Area (SPA) 2 for the Departments of Children and Family Services (DCFS), Health Services (DHS), Mental Health (DMH), Probation, and Public Social Services (DPSS) at an initial annual full-service rental rate not to exceed $4,650,000.

PURPOSE OF RECOMMENDED ACTION

This action will allow the CAO to negotiate with AMV for acquisition of leased office space to accommodate DCFS, DHS, DMH, Probation, and DPSS within SPA 2 which will provide for the delivery of comprehensive services in a single location in proximity to the population these departments serve. Moreover, this lease will provide the additional space required by the occupant departments to meet growing caseload needs. Should the CAO not be able to conclude negotiation of a lease with AMV by Tuesday, October 28, 2003, the CAO may initiate negotiations with any remaining viable proposer from the January 28, 2003 Request For Proposals (RFP). The CAO anticipates bringing a final lease to your Board on or before

March 31, 2004; the CAO may discontinue negotiations related to this RFP if a final lease cannot be brought to your Board within that time. No developer involved in these negotiations will be entitled to reimbursement for architectural fees or any other costs incurred during the preliminary planning phases of this proposed project.

JUSTIFICATION

In November 1993, your Board approved the creation of eight Service Planning Areas to provide for better planning, coordinating, sharing of information and data, and delivery of children's, health, mental health, and social services. In November 1998, your Board approved the first phase of the CAO's Strategic Asset Management Plan, which called for an in-depth study of space utilization and service delivery among the social service departments, including DCFS, DHS, DMH, and DPSS. As a result, the County conducted a Social Services Space Study in December 1999. This study was updated in October 2002 to recalculate the social services departments' staffing and square footage needs based on the changing nature of the County's real estate portfolio. A key finding was that both DCFS and DPSS report an immediate need for additional square footage to meet caseload demand in Supervisorial District 3. Your Board had previously adopted recommendations on September 4, 2001 to encourage the delivery of high-quality, integrated, community-based services with Family Resource Centers, and on December 10, 2002, approved the June 2002 report titled, "Multi-Agency Service Center Strategy."

After completion of the initial study, the CAO undertook an extensive search to identify available office space, but available office facilities meeting the County's requirements and preferred location within the East San Fernando Valley SPA 2 did not exist. In December 2001, the CAO issued a RFP to 371 real estate developers, brokers and other interested parties to lease an office complex or complexes to be designed and built to meet the identified space requirements for SPA 2, within eight targeted zip codes. Responses on 22 sites were received, some of which were disqualified for being outside the SPA 2 targeted zip codes. After evaluation of all the responses in October 2002, a short list of five respondents was selected with which to initiate discussions. On January 28, 2003, a revised RFP was sent to the short list respondents. This revised RFP requested proposals for implementing a co-located and integrated multi-agency Family Service Center (FSC) which will be designed to provide essential assessment services and referrals, as well as a range of County and community services in an environment that is family-focused, culturally sensitive, responsive, accessible, and that supports integrated work processes.

The FSC would provide both functional and economic efficiencies by allowing more convenient and coordinated service delivery for the public, as well as economies of scale from shared use of support space (conference, reception, and storage space) and improved leverage inherent in larger size projects from lower per unit cost of construction. In addition, such a new facility would serve as a catalyst for neighborhood revitalization.

After careful review of the short list proposals, utilizing an evaluation process based on the economic benefits to the County under the lease including the financing mechanism; as well as location, quality of the building product, impact on adjoining land uses and the community as a whole, and the experience of the developer, this office is recommending that negotiations commence for lease acquisition of the following proposed site offered in response to the RFP. This project will be new construction.

	Proposed Terms of Design-Build Lease To Be Negotiated
Proposer	Arden Municipal Ventures, Incorporated
Address	8500 Van Nuys Boulevard
Area	135,000 Net Rentable Square Feet
Term of Lease	30 years
Annual Rent	$4,650,000 ($2.87 per square foot) Full-Service
Occupancy	Approximately 24 months after Board approval of Lease
Cancellation	After 15 years
Option to Purchase	After 15th Year
Parking	650 spaces (4.8 per 1000)
Childcare	At County's option with $0.04 per square foot added to rent

This site is recommended because it has the best combination of design, location, and price. The low-rise L-shaped design will provide the most conducive environment for implementing the Family Service Center concept. The building will be located on the corner of Van Nuys Boulevard and Parthenia Street, which provides multiple access points for vehicles and pedestrians and supports a welcoming atmosphere. The site's location on a major street within a lively, neighborhood-oriented commercial district strengthens the Family Service Center concept and offers benefits to the neighborhood as well. The proposed rent for the lease was also one of the lowest of the five proposals reviewed. Only one site proposed lower rent, but it had fewer desirable characteristics than the subject site.

FISCAL IMPACT

The selected proposal offers an initial monthly full-service rental rate of approximately $2.87 per square foot for the completed facility, including all tenant improvements and operating expenses associated with the County's tenancy, including building management. The base portion of the rental rate will remain fixed over the 30-year term. Increases or decreases in the operating expenses, currently estimated at $0.65 per square foot, will be passed through to the County on a monthly basis. The initial first-year total rental cost is estimated at approximately $4,650,000 based on the submitted proposal. This rate does not include the additional rent for a childcare facility, discussed below, or real property taxes, if assessed. Although the total anticipated rent is higher in the first year than would normally be expected for an operating lease, it is anticipated that rent over the 30-year period will be less than market leases for the same amount of space because the base rent is fixed for the entire period.

Nearly 90 percent of the total usable space in the new facility will be occupied by County departments at an average subvention rate of 88 percent. Thus, the share of costs for departments, $4,178,000, will be substantially offset, leaving a net County cost (NCC) of $520,000 the first year, which is further offset by NCC savings of $146,000 due to departments vacating current occupancies. The participating departments will absorb the increased costs. The balance of the space, about 13,700 square feet, is expected to be occupied by community-based organizations (CBOs), providing services pursuant to contracts with certain subvened County Departments. Assuming an average subvention rate of 80 percent for the CBOs, approximately $94,000 of the total $472,000 rent associated with this space will have to be identified to support the CBOs' occupancy. To the extent CBOs or alternative funding cannot be identified prior to finalizing lease negotiations, the space allocated to them may be reduced.

The developer will, at the County's option, be obligated to provide an on-site childcare center for employees and the community to accommodate 100 children. This will add $0.04 per square foot per month to the rental cost, which is an NCC, since it is open to the public. An effort is underway to identify a provider who can pay the base rent, and operating costs. If an operator is not located during lease negotiations the child care center may not be built.

Attachment "A" shows the existing leased and owned facilities proposed to be vacated and an analysis of the NCC.

The developer will be responsible for arranging its own financing for both acquisition and total development costs through tax-exempt bond financing approved by the County. A complete financial analysis will be presented as a part of the final recommended lease agreement to be submitted to your Board for its consideration.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The proposal will require the developer to provide a Class "A" structural Type I fire-rated building. Total "turnkey" development costs for the build-to-suit facility is $339 per square foot, excluding financing costs. The Tenant Improvement cost is $70 per square foot, which is included in the $339 per square foot turnkey cost. The development time from lease execution to move in will be approximately 24 months for the build-to-suit.

The lease will have a term of 30 years, with an option to extend and renew the term for an additional period of time and an option to purchase. Tenant Improvements will be provided on a turnkey basis for $70 per square foot, to be amortized within the base rental rate which will be fixed and unchanged over the 30-year term, as specified by the County. In addition, a reserve for capital replacements of $0.60 per rentable square foot per year will be included in the base rental rate. The developer/lessor will be responsible for capital item replacements over the term of the lease and may use the reserve account for this purpose with the County's approval. Any unused reserves upon lease termination will revert to the County.

Six hundred and fifty parking spaces will be provided on-site.

A purchase option will be available after the 15th year of the lease term for a fixed price, declining annually thereafter based on a straight line depreciation of the improvements at two percent over a 50-year term, plus the fair market value of the land determined at the developer=s cost plus two percent per year for inflation. As such, it is the County=s intent that the proposed lease be characterized as operating lease in accordance with FASB-13.

CONCLUSION

Your Board's authorization will allow the CAO to take the next step in the lease acquisition process by beginning lease negotiations and to return with final lease agreement for your Board's consideration on or before March 31, 2004.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:CWW
WLD:dg
Attachment
c: County Counsel
Department of Children and Family Services
Department of Health Services
Department of Mental Health
Department of Public Social Services
Department of Probation

SOURCE FACILITIES FOR SPA 2 PROJECT

Department Existing Facility	Space Occupied	Lease/ Own	Current NCC Lease Cost	Current NCC Operating Cost (1)	New Square Footage	New Space @ $2.87/sf/mo (2) (3) (annual cost)	Subvention Rate	NCC of New Space (annual)	NCC of new (7) Space Net of Current NCC Costs
Department of Public Social Services					94,076	3,239,977	90.0%	323,998	177,933
14545 Lanark Street, Panorama City (4)	49,360	Own	-	35,459					
9035 Canoga Ave, Canoga Park	44,835	Lease	87,945	22,661					
	94,195		87,945	58,120					
Department of Children and Family Services (New) (5)	-		-	-	19,510	671,924	87.0%	87,350	87,350
Department of Mental Health (New) (5)	-		-	-	4,574	157,529	100.0%	-	-
Probation Department					2,246	77,352	0.0%	77,351	77,351
14540 Haynes Street, Van Nuys (5)	13,500	Lease	-	-					
14414 Delano Street, Van Nuys (5)	15,825	Own	-	-					
Department of Health Services	-		-	-	896	30,858	0.0%	30,858	30,858
Community Based Organizations and Unallocated space (6)	-		-	-	13,698	471,759	80.0%	94,352	94,352
	123,520		87,945	58,120	135,000	4,649,400		613,909	467,845

Notes:
(1) Current year estimates of operating costs average $0.51 per square foot per month.
(2) The square footage (sq. ft.) costs does not include a child care facility. If County elects to have a child care facility an additional $0.04 per sq. ft. needs to be added to the rent to support a child care facility.
(3) Assumes no real estate taxes are payable.
(4) 14550 Lanark Street, Panorama City was originally also considered for the SPA 2 consolidation; however, those General Relief program staff are not appropriate for a Family Resource Center.
(5) The departments will move existing staff from other locations to relieve overcrowding , there will be no cost savings.
(6) Any CBO that contracts with a subveanable County department will be subvened. This assumes a scenario where 80% of the CBOs can pay rent or have their rent subvented.
(7) This amount is calculated by subtracting the current NCC cost from the New Space NCC ($323,998 - $87,945 & $58,120)
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